RETIREMENT AND EDUCATION
SAVINGS ACCOUNTS

IRA and Education Savings

This booklet is designed to highlight traditional individual retirement accounts (IRAs), Roth IRAs, and Coverdell Education Savings Accounts (CESAs). It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the federal laws governing these accounts or how they may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional.

Inside, you will find practical IRA and CESA information, from eligibility and contribution limits to deductibility and reporting requirements. Let this easy-to-read guide help you plan for your future retirement and education needs.

The CESA agreement and disclosure statement and/or amendments provided by the custodian/trustee, IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), *IRS Publication 590-B,* Distributions from Individual Retirement Arrangements (IRAs), *IRS Publication 970,* Tax Benefits for Higher Education, *Instructions for your federal income tax, and the IRS's website,* www.irs.gov, *may also provide helpful information.*

TRADITIONAL IRAs

Who is eligible to make a regular contribution to a traditional IRA?

Anyone who has compensation is eligible to make regular contributions to a traditional IRA, even if he/she already participates in certain types of government plans, a tax-sheltered annuity (TSA), a simplified employee pension (SEP) plan, a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) IRA plan, or a qualified plan (QP) such as pension, 401(k), or profit sharing established by his/her employer. There are no age requirements to be eligible to make an annual regular contribution to a traditional IRA.

Compensation is defined as the salary or wages you receive as an employee. If you are self-employed, compensation is your net income from personal services performed for the business. Passive income such as interest, dividends, capital gains, and rental income is not considered compensation for purposes of funding a traditional IRA. See your tax or legal professional for help in determining your compensation.

What are my contribution limits?

For a traditional IRA, you may deposit any amount up to 100 percent of your compensation or the maximum annual contribution amount, whichever is less. Your regular traditional IRA contribution must be coordinated with your regular Roth IRA contribution—your combined maximum contribution to both types of IRAs is the maximum annual contribution amount or 100 percent of your compensation, whichever is less.

What is the contribution deadline for funding a traditional IRA?

For a given taxable year, you can open and fund a traditional IRA any time between January 1 and the date your federal income tax return is due for that year, excluding extensions.

For most taxpayers, this is April 15 of the following year. If the due date falls on a Saturday, Sunday, or legal holiday, the IRA contribution deadline is the next business day. The deadline may be extended in some situations. Examples include a federally declared disaster, a terroristic or military action, or service in a hazardous duty area or combat zone.

Can a spouse with no compensation have a traditional IRA?

In the case of a married couple filing a joint federal income tax return, the contribution limit is based on the compensation of both spouses.

The maximum contribution for each individual is the lesser of the maximum annual contribution amount or the total compensation for the individual plus the spouse's compensation.

A compensated spouse can continue to fund up to the lesser of 100 percent of his/her compensation or the maximum annual allowable contribution for a noncompensated spouse into such spouse's own IRA.

If both spouses have compensation, and file their income tax returns separately, each spouse may establish a traditional IRA and contribute based on his/her separate compensation.

What is the maximum annual contribution amount?

The following table shows the maximum annual contribution amounts. Catch-up contributions are available for individuals age 50 or older. These additional amounts increase the maximum annual contribution amount.

CONTRIBUTION LIMITS			
Tax Year	Contribution Limit	Catch-Up Limit	Total Limit for Age 50 and Over
2022	$6,000	$1,000	$7,000
2023	$6,500	$1,000	$7,500
2024 and later years	$6,500*	$1,000*	$7,500*

*Subject to annual cost-of-living adjustments, if any.

The amount of any tax refund contributed directly to your IRA is subject to the annual contribution limit.

What happens if I contribute too much to my IRA?

If your contribution exceeds the maximum annual contribution amount, you have made an excess contribution. If this excess, plus attributable earnings, is not removed from the account by the due date for filing your federal income tax return (normally April 15), including extensions, you will be assessed a penalty tax equal to 6 percent of the amount of the excess contribution. This penalty tax is due each year the excess contribution remains in the account.

You could choose to pay the 6 percent penalty tax and apply the excess contribution to the following tax year.

You can change your mind about a traditional IRA contribution that is not an excess contribution and withdraw it, plus earnings attributable, on or before the due date of your federal income tax return (including extensions).

Do I get a tax deduction for my deposit?

Deductions for traditional IRA regular contributions are based on three factors: your modified adjusted gross income (MAGI), you or your spouse's active participation status in an employer-sponsored retirement plan, and your income tax-filing status. Depending on your circumstances, you may claim:

- A full deduction
- A partial deduction
- No deduction

There are no deductions for Roth IRA regular contributions.

What is modified adjusted gross income (MAGI)?

Adjusted gross income (AGI) is your income from all sources, including taxable social security benefits and taxable pension, IRA, and annuity distributions. Adjustments to gross income may include moving expenses; half of self-employment tax; self-employed health insurance deductions; traditional IRA and self-employed employer retirement and SEP plan deductions; and penalty on early withdrawals of savings. MAGI is your AGI before deductions for traditional IRA contributions and some other adjustments. Your tax professional can help you determine your MAGI.

What are employer-sponsored retirement plans?

Employer-sponsored retirement plans include:

- A qualified retirement plan under Internal Revenue Code (IRC) Section 401(a) (pension, profit sharing [including a 401(k) plan], stock bonus, federal thrift savings, or defined benefit plan)
- An annuity plan under IRC Section 403(a)
- A tax-sheltered annuity under IRC Section 403(b)
- A simplified employee pension (SEP) plan
- A Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) IRA plan
- Certain governmental plans, but excluding deferred compensation plans as defined in IRC Section 457(b)

Am I an active participant?

You are considered an active participant in an employer-sponsored retirement plan if you have satisfied the plan's age and service requirements and you have accrued benefits or voluntary or mandatory contributions have been made on your behalf. Your employer (or former employer) will inform you of your active participation status for the tax year on your Form W-2, *Wage and Tax Statement*.

Your salary deferrals to a 401(k) plan constitute active participation.

Vesting, your earned right to retirement benefits, is not a factor when determining whether you are an active participant.

What if I am an active participant, but my spouse is not?

For married persons filing a joint federal income tax return, if one spouse is an active participant but the other is not, the nonparticipant spouse may be eligible for either a full, partial, or no deduction depending on the couple's joint MAGI.

Basic rules for determining IRA deductibility

- If you are single and are not an active participant in an employer-sponsored retirement plan, or are married and neither you nor your spouse are active participants, you are eligible for a full deduction no matter how large your income
- If both you and your spouse are active participants or if you are single and an active participant, you may be eligible for a full, partial, or no deduction depending on your MAGI
- If you are not an active participant but your spouse is and you file a joint federal income tax return, you may be eligible for a full, partial, or no deduction depending on your joint MAGI

Are the earnings on my traditional IRA contributions currently taxed?

No. The earnings on traditional IRA contributions (deductible and/or nondeductible) remain tax-deferred until withdrawn from the IRA.

Do I tell the IRS if my traditional IRA contribution is not tax deductible?

A traditional IRA owner reports the deductible portion of a regular or spousal traditional IRA contribution as an adjustment to gross income on his/her federal income tax return.

Each year an IRA owner makes a nondeductible contribution or a qualified reservist distribution repayment to a traditional IRA, he/she must complete and attach IRS Form 8606, *Nondeductible IRAs*, to his/her federal income tax return. Form 8606 records annual nondeductible contributions to an individual's traditional IRAs and tracks the total nondeductible balance in all of an individual's traditional IRAs. The total nondeductible balance also includes the nontaxable portions of any eligible distributions rolled over from qualified employer plans.

When can I withdraw assets from my traditional IRA?

You can withdraw assets from your traditional IRA at any time. However, a 10 percent early-distribution penalty tax is imposed if a withdrawal is made before you reach age 59½.

The 10 percent early-distribution penalty tax does not apply to:

- Distributions made to your beneficiary after you die
- Distributions made after your disability
- Distributions you take that are part of a series of substantially equal periodic payments

  EXCEPTION: The 10 percent early-distribution penalty tax will be imposed if you change the distribution method prior to age 59½ to a method which does not qualify or if you do not receive payments for at least five years, even if the method of distribution is modified after age 59½. This penalty will be payable in the year the payment method is modified and will be equal to the tax that would have been imposed plus interest had the exception not applied. See your tax professional for complete procedures and exceptions.
- Distributions for medical expenses exceeding a certain percentage of your adjusted gross income
- Distributions for health care insurance premiums if you have been receiving unemployment compensation for at least 12 weeks
- Distributions to pay for qualified higher education expenses
- Distributions for qualified acquisition costs in the purchase of a first home (up to $10,000)
- Distributions paid directly to the IRS due to an IRS levy
- Distributions to qualified reservists
- Nontaxable distributions from a traditional IRA (after-tax amounts)
- Distributions that are rolled over into a traditional IRA or other eligible retirement plan
- Distributions that are converted into a Roth IRA
- Distributions for a qualified birth or adoption
- Qualified disaster recovery distributions
- Distribution to fund a Health Savings Account annual tax-year contribution (one time only)
- Distributions if you are certified as having a terminal illness

Note: Earnings attributable to excess or unwanted contributions are also not subject to the 10 percent early-distribution penalty tax.

What are the basic mandatory distribution requirements for traditional IRAs?

You must begin to take minimum distributions from your account by April 1 following the calendar year you reach age 73[1]. All subsequent years' required minimum distributions must be distributed by December 31 of each year.

Failure to take the annual required minimum distributions could result in up to a 25 percent excess-accumulation penalty.

See your IRA custodian/trustee or your tax or legal professional for more information on required minimum distributions.

How are the assets taxed at distribution?

If you are over age 59½, you must include the taxable portion of the amount withdrawn (deductible contributions and all earnings) as income. (The only exception is when the entire distribution is rolled over to a traditional IRA or other eligible retirement plan.) If you are under age 59½ and do not qualify for any exceptions, you must include the taxable amount withdrawn in your income plus you must pay a 10 percent penalty tax for early distribution.

If an individual withdraws assets from a traditional or SIMPLE IRA during a taxable year and the individual has previously made both deductible and nondeductible traditional IRA contributions, part of the distribution will be taxable and part will be nontaxable.

The nondeductible contributions are not taxable when withdrawn nor is there a 10 percent penalty tax for early distribution.

Your tax professional can help you calculate the taxable amount of your traditional IRA distributions for federal and state income tax purposes.

If you have attained age 70½, you may be able to make tax-free distributions directly from your IRA to a qualified charitable organization (a QCD). The tax-free amount is limited to $100,000 annually (subject to annual cost-of-living adjustments, if any). In addition, you may be able to elect to make a once-on-a-lifetime QCD of up to $50,000 to a split-interest entity made directly to the entity by the custodian/trustee. Consult with your tax or legal professional regarding tax-free charitable distributions.

If certain requirements are met, you may take a once-in-a-lifetime tax-free distribution to fund your annual tax year

1 *For tax years 2019 and earlier, required minimum distributions had to begin at age 70½ and for tax years 2020, 2021 and 2022, RMDs had to begin at age 72.*

Health Savings Account (HSA) contribution. We recommend consulting your tax professional to make sure this HSA funding mechanism makes sense for you.

How can I move assets from one IRA into another?

Generally there are two ways to move an IRA from one financial organization into another: rollover and transfer.

A rollover takes place when IRA assets are paid directly to you and you redeposit or roll them over into an IRA within 60 calendar days of receipt. The 60-day period begins the day after you receive the payment.

A transfer occurs when assets are moved directly from one IRA into another like IRA without you having direct control or use of the assets. Checks issued to the new custodian/trustee may be delivered by you if agreed to by the custodians/trustees.

Unlike rollovers, there are no time or frequency limits on the number of transfers permitted.

Are there other restrictions?

You are limited to one rollover for all of your traditional, Roth, and SIMPLE IRAs per 1-year (12-month) period (that is, only one nontaxable IRA-to-IRA rollover per taxpayer in a year—not one rollover for each IRA per year). The one rollover per 1-year limitation does not apply if the assets are transferred directly from one financial organization into another, or if they are directly or indirectly rolled over from or to an employer-sponsored retirement plan.

What employer-sponsored retirement plans can make distributions eligible for rollover into a traditional IRA, Roth IRA, SIMPLE IRA, or another eligible retirement plan?

The following plans are employer-sponsored retirement plans that can make eligible rollover distributions (ERDs):

- Qualified plans under IRC Section 401(a) including: money purchase plans, defined benefit plans, profit-sharing plans [including a 401(k)], and federal thrift savings plans
- IRC Section 403(a) annuity plans
- IRC Section 403(b) tax-sheltered annuity plans
- Governmental IRC Section 457(b) plans

ERDs paid directly to you are subject to a mandatory 20 percent federal income tax withholding at the time of distribution and are eligible for an indirect rollover within 60 days.

Rollovers to a SIMPLE IRA are available after the two-year period following the employer's initial deposit to an individual's SIMPLE IRA.

What is a direct rollover?

A direct rollover occurs when an ERD is moved from an employer-sponsored retirement plan into an IRA, or other eligible retirement plan, without you having direct control or custody of the funds. Such distributions are not subject to 20 percent federal income tax withholding.

What portion of an ERD cannot be directly or indirectly rolled over into a traditional IRA?

An ERD is a distribution of any portion of the balance to the credit of a plan participant. An ERD cannot include any payments such as:

- Distributions that are part of a series of substantially equal periodic payments made over a single life expectancy of a participant or joint life expectancy of a participant and beneficiary, or for a period of ten years or more
- Required minimum distributions
- Hardship distributions

Can a SIMPLE IRA be rolled over or transferred to a traditional IRA?

Yes. However, for a two-year period following the employer's initial deposit to an individual's SIMPLE IRA, rollovers or transfers can only be made to another SIMPLE IRA. After the two-year period, rollovers or transfers can be made to both SIMPLE IRAs and traditional IRAs.

Can a traditional IRA be rolled over to a SIMPLE IRA?

Yes. Rollovers from a traditional IRA to a SIMPLE IRA are allowed after the two-year period following the employer's initial deposit to an individual's SIMPLE IRA.

Can a traditional IRA be converted to a Roth IRA?

Traditional IRA assets may be converted to a Roth IRA. The amount converted will be subject to taxation. However, the assets will not be subject to the 10 percent early-distribution penalty tax.

Conversions completed as rollovers from a traditional IRA to a Roth IRA are not subject to the one rollover per 1-year limitation.

What happens to my account in the event of my death?

If death occurs before the entire amount of your traditional IRA has been paid to you, any balance remaining is paid to the beneficiary(ies) you designate. This payment can generally be made in a single sum, within a period of time or, for some beneficiaries, in installments over a period of time that does not exceed a life expectancy. A surviving spouse who is the sole beneficiary of your traditional IRA may treat your IRA as his/her own. IRS required distribution rules and the provisions of your traditional IRA agreement will determine how your beneficiaries may take distributions upon your death. Consult your tax or legal professional for a detailed explanation of these complex beneficiary rules.

When can I open an IRA?

An IRA can be opened at any time. IRA regular contributions must be made for a taxable year between January 1 and the date your federal income tax return is due for the year, excluding extensions. This due date is normally April 15 of the following year. So, for any tax year, you generally have fifteen and one-half months to contribute for that year. If the due date falls on a Saturday, Sunday, or legal holiday, the IRA contribution deadline is the next business day. The deadline may be extended in some situations. Examples include a federally declared disaster, a terroristic or military action, or service in a hazardous duty area or combat zone.

ROTH IRAs

What is a Roth IRA?

A Roth IRA allows only nondeductible contributions, but features federal income tax-free withdrawals of earnings for certain distribution reasons after a five-year holding period.

Am I eligible for a Roth IRA?

There are two requirements for eligibility to make regular tax-year contributions to a Roth IRA: you must have compensation (or your spouse must have compensation) and your MAGI for any tax year cannot exceed certain prescribed limits. These limits are subject to annual cost-of-living adjustments.

How much can I contribute each year?

You may contribute any amount up to the lesser of 100 percent of your compensation or the maximum annual contribution amount, whichever is less, if your MAGI is within prescribed limits as shown in the following tables.

CONTRIBUTION LIMITS			
Tax Year	Contribution Limit	Catch-Up Limit	Total Limit for Age 50 and Over
2022	$6,000	$1,000	$7,000
2023	$6,500	$1,000	$7,500
2024 and later years	$6,500*	$1,000*	$7,500*

*Subject to annual cost-of-living adjustments, if any.

2023 MAGI LIMITS			
Modified AGI (MAGI)	Single	Married, Filing Jointly	Married, Filing Separately*
Less than $10,000	Full Contribution	Full Contribution	Phaseout
$ 10,000 - $138,000	Full Contribution	Full Contribution	No Contribution
$138,001 - $152,999	Phaseout	Full Contribution	No Contribution
$153,000 - $218,000	No Contribution	Full Contribution	No Contribution
$218,001 - $227,999	No Contribution	Phaseout	No Contribution
$228,000 or over	No Contribution	No Contribution	No Contribution

*If you are married, filing separately, and lived apart from your spouse the entire year, you can use the MAGI limit for a single filer to determine your contribution limit.

2022 MAGI LIMITS			
Modified AGI (MAGI)	Single	Married, Filing Jointly	Married, Filing Separately*
Less than $10,000	Full Contribution	Full Contribution	Phaseout
$ 10,000 - $129,000	Full Contribution	Full Contribution	No Contribution
$129,001 - $143,999	Phaseout	Full Contribution	No Contribution
$144,000 - $204,000	No Contribution	Full Contribution	No Contribution
$204,001 - $213,999	No Contribution	Phaseout	No Contribution
$214,000 or over	No Contribution	No Contribution	No Contribution

*If you are married, filing separately, and lived apart from your spouse the entire year, you can use the MAGI limit for a single filer to determine your contribution limit.

Your Roth IRA contribution must be coordinated with your traditional IRA contribution—your combined maximum contribution to both types of IRAs is the maximum annual contribution amount or 100 percent of your compensation, whichever is less.

Additionally, if you have attained age 50 or older by the end of your taxable year, you are eligible to make catch up contributions. These additional amounts increase the maximum contribution amount.

The amount of any tax refund contributed directly to your IRA is subject to the annual contribution limit.

What is the contribution deadline for funding a Roth IRA?

For a given taxable year, you can open and fund a Roth IRA any time between January 1 and the date your federal income tax return is due for that year, excluding extensions.

For most taxpayers, this is April 15 of the following year. If the due date falls on a Saturday, Sunday, or legal holiday, the IRA contribution deadline is the next business day. The deadline may be extended in some situations. Examples include a federally declared disaster, a terroristic or military action, or service in a hazardous duty area or combat zone.

Do I pay taxes on my earnings?

The earnings are not taxed if part of a qualified distribution. That's the best part of the Roth IRA. Unlike a traditional IRA, you cannot take a tax deduction for any of the contributions that you make to a Roth IRA. However, when you are ready to make a qualified distribution, you pay no taxes on any of the earnings that your contributions have generated.

What is a qualified distribution?

In order for earnings to be income tax free, you must first meet a five-year holding period for your Roth IRA. This period begins with the tax year for which your first contribution is made. After that, any earnings you withdraw for a qualified distribution reason are income tax free and penalty tax free. Qualified distribution reasons are:

- Distributions made on or after the date on which you attain age 59½
- Distributions made to your beneficiary after your death
- Distributions attributable to you being disabled
- Qualified first-time home buyer distributions (up to $10,000)

Does the 10 percent early-distribution penalty tax apply if I withdraw my money before age 59½?

The 10 percent early-distribution penalty tax does not apply to earnings you withdraw when you take any of the qualified distributions listed previously. The 10 percent early-distribution penalty tax is also waived for certain other distribution reasons. But, income taxes on any earnings will apply. Distributions of any earnings withdrawn that are subject to taxes but no penalty include:

- Substantially equal periodic payments
- Qualified reservist distributions
- Eligible medical expenses exceeding a certain percentage of your AGI
- Health insurance premiums if you have been receiving unemployment compensation for at least 12 weeks
- Qualified higher education expenses
- Distributions taken within the first five years for any of these reasons: age 59½, death, disability, or first-time home purchase (up to $10,000)
- Distributions paid directly to the IRS due to IRS levy
- Distributions for a qualified birth or adoption
- Qualified disaster recovery distributions
- Distribution to fund a Health Savings Account annual tax-year contribution (one time only)
- Distributions if you are certified as having a terminal illness

  Note: Earnings attributable to excess or unwanted contributions are also not subject to the 10 percent early-distribution penalty tax.

Distributions of earnings taken for any reason other than a qualified reason or one of the reasons listed here are subject to both taxes and a 10 percent penalty tax.

What if I need access to my money now?

If you are not eligible for a qualified distribution, regular contribution amounts are returned first. Contributions are not subject to taxation and generally are not subject to the 10 percent early-distribution penalty tax when distributed. In other words, you can generally withdraw your regular contributions income tax free and penalty tax free any time and for any reason.

When do I have to start taking distributions from my Roth IRA?

You never have to take distributions from your Roth IRA. That's another advantage of the Roth IRA over the traditional IRA. Assets held in a Roth IRA are not subject to required minimum distributions for you.

Can I move assets from one Roth IRA into another?

Yes, you may roll over or transfer your Roth IRA assets into another Roth IRA subject to the same limitations as described earlier for traditional IRAs.

Can I roll over Roth contributions in an employer-sponsored retirement plan?

If your employer has adopted a qualified Roth contribution program for its qualified plan as defined in Internal Revenue Code Sections 401(a), 403(b), or governmental 457(b), assets, plus earnings, from these designated Roth accounts can be rolled over to a Roth IRA or to a designated Roth account in another eligible retirement plan.

Can I roll over an employer plan distribution to a Roth IRA?

Yes. You may directly or indirectly roll over distributions from certain employer plans to a Roth IRA. However, there may be income tax consequences that should be first discussed with your tax professional.

What happens in the event of my death?

Your named beneficiary(ies) will receive the rights to the balance in your Roth IRA. Distributions to the beneficiary(ies) will be made in accordance with the required minimum distribution rules for beneficiaries and your Roth IRA agreement. Consult your tax or legal professional for a detailed explanation of these complex beneficiary rules.

COVERDELL EDUCATION SAVINGS ACCOUNTS (CESAs)

What is a CESA?

A CESA is a nondeductible account that features tax-free withdrawals for a very specific purpose—a child's (designated beneficiary's) education expenses.

Traditional and Roth IRAs also permit higher education distributions. While qualified higher education distributions from a traditional or Roth IRA are penalty tax free, the same distributions from a CESA are penalty free and federal income tax free. Consult your tax or legal professional for further information.

Am I eligible to contribute to a CESA?

You are eligible if your MAGI does not exceed certain limits. Contributions must be made in cash.

There are no requirements that a contributor have compensation or be under or over a certain age.

Contributors can also be nonindividuals like corporations or tax-exempt organizations. These entities have no income restrictions for qualification.

Contributors must contribute by the due date of the designated beneficiary's (child's) tax return (not including extensions).

How much can I contribute?

The total aggregate contribution into one or more CESAs on behalf of a child is $2,000 a year. As an individual contributor, your allowable contribution depends on your MAGI and tax-filing status. Consult your tax or legal professional for more information.

MAGI LIMITS			
Filing Status	Full Contribution Allowed	Partial Contribution Allowed	No Contribution Allowed
Married Filing Jointly	MAGI $190,000 or Less	MAGI Between $190,000 and $220,000	MAGI $220,000 or More
All Other Individuals	MAGI $95,000 or Less	MAGI Between $95,000 and $110,000	MAGI $110,000 or More

How does the law define a "Child"?

A child is defined as a person who is under the age of 18. A child's eligibility for CESA contributions ends after the child reaches age 18 (however many CESA agreements, including the IRS's own model form, state contributions must be made before attaining age 18). Children with special needs are not subject to this restriction. A child is referred to as the designated beneficiary of a CESA.

What if I want to save for more than one child?

The law allows a contributor to deposit the maximum allowable contribution into separate CESAs for as many children as desired.

If I can't contribute the maximum, can someone else also contribute?

Yes, there can be more than one contributor, provided the total contribution for the child does not exceed $2,000 for the year.

Do I pay taxes on the earnings?

No, and neither does the child (provided the money is used for qualified education expenses). That's the best part of the CESA.

You cannot take a tax deduction for any of the contributions that you make to a CESA. However, when the designated beneficiary is ready to make his or her withdrawal for school, there will be no taxes due on any of the earnings. Additionally, the withdrawal of nondeductible contributions is always tax free.

Who has control of the assets?

Each CESA will have a responsible individual, usually the child's parent or legal guardian. That individual has control of the assets until the child reaches the age of majority, and in some cases, even after that date.

What is a qualified education expense?

A qualified educational expense generally can be for tuition, fees, books, supplies, and equipment required for enrollment or attendance at an eligible educational institution. Qualified Higher education expenses also include the purchase of computer or peripheral equipment, computer software, or Internet access and related services.

Basically, an eligible educational institution is a vocational school or a college or university. Reasonable room and board expenses are also eligible if the student is registered at least half time (as defined by the institution and the Department of Education) regardless of whether he/she lives on or off campus.

Distributions must be made during the year in which the education expense occurred. If distributions exceed the educational expenses, the additional amount withdrawn is a nonqualified distribution.

May CESA assets be applied to elementary or secondary education expenses?

Yes. CESA assets may be used to pay qualified elementary and secondary education expenses. This includes kindergarten through grade 12 administered by a school. The school, as defined under state law, may be a public, private, or religious school.

Qualified elementary or secondary educational expenses, which may be paid tax free with CESA assets, are generally similar to those for qualified higher education. Consult your tax or legal professional or see IRS Publication 970, *Tax Benefits for Education*, for more detailed information on qualified education expenses.

What is a nonqualified distribution?

A nonqualified distribution is any distribution other than a distribution for qualified education expenses.

When a nonqualified distribution is taken, a ratio of contributions and earnings is withdrawn. The earnings portion is then subject to taxes and a 10 percent penalty tax. Distributions made on account of death, disability, or amounts included in income because of the receipt of certain educational assistance or scholarship are not subject to the 10 percent penalty tax. However, the earnings portion of such distributions is taxable.

Can I move funds from my traditional or Roth IRA into a CESA?

Unfortunately, no. You can, however, roll over or transfer funds over from one CESA into a second CESA established for the same child.

If the CESA documents allow, you can also roll over or transfer CESA assets into a CESA for a different designated beneficiary if he/she is a member of the designated beneficiary's family (as defined by law). That way, if a child decides not to pursue his or her education, the account can be transferred to a CESA of a relative who does.

Can I roll over assets received from a military death gratuity or Servicemember's Group Life Insurance benefit?

Yes, to a Roth IRA or a Coverdell Education Savings Account, but not to a traditional IRA. The rollover must occur within one year of receipt of the gratuity or benefit.

Can I move CESA assets to another CESA?

Yes, CESA assets can be moved to another CESA through either a rollover or a transfer. A rollover of a distribution taken must be completed within 60 days after the date of receipt from the CESA. Only one rollover is allowed from a CESA to the same or another CESA in any 12-month period regardless of the number of CESAs you own. However, an unlimited number of *transfers* of CESA assets from one CESA custodian/trustee directly to another CESA custodian/trustee are allowed. The $2,000 annual contribution limit does not apply to these rollover contributions.

Are distributions required?

Yes, the balance must be withdrawn within 30 days after the designated beneficiary's death or his/her 30th birthday, whichever is earlier. The age 30 distribution requirement does not apply to special needs individuals.

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